

Message Text

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SUBJECT: MOF REFUTES FOREIGN CRITICISM OF LOW YEN RATE

1. FINANCE MINISTRY (MOF) HAS PREPARED A "REFUTATION DOCUMENT" AGAINST FOREIGN CRITICISM THAT THE YEN HAS BEEN HELD AT TOO LOW A LEVEL. MOF APPARENTLY VERY SENSITIVE TO EUROPEAN AND U.S. CRITICISM WHICH NOW INCLUDES CONGRESSMAN REUSS. ACCORDING TO PRESS, REFUTATION DOCUMENT WILL BE CARRIED ALONG BY VICE MIN INTL. FIN MATSUKAWA DURING HIS ROUND OF TALKS IN U.S. AND EUROPE. (TOKYO 12780)

2. FULL ENGLISH TRANSLATION OF GIST OF REFUTATION DOCUMENT CARRIED IN JAPANESE PRESS (NIHON KEIZAI AUG 28) FOLLOWS:

"GIST OF "REFUTATION DOCUMENT" AGAINST CRITICISM AGAINST THE LOW YEN; SURPLUS BALANCE AMOUNT TO DWINDLE IN THE FUTURE;
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FOREIGN CURRENCY RESERVES ONLY ONE-HALF THAT OF WEST GERMANY

THE GIST OF THE "REFUTATION DOCUMENT" AGAINST THE LOW YEN CRITICISM, COMPILED BY THE FINANCE MINISTRY ON THE 27TH, AND TITLED "OUR

COUNTRY'S INTERNATIONAL PAYMENTS SITUATION AND EXCHANGE RATE,"
IS AS FOLLOWS:

MOVES AND OUTLOOK FOR OUR COUNTRY'S INTERNATIONAL PAYMENTS
SITUATION: A OUR COUNTRY HAS COME TO REGISTER A SURPLUS BALANCE
FROM THIS YEAR, AT LONG LAST. THE US IS SUPPOSED TO HAVE HAD
A BIG SURPLUS BALANCE LAST YEAR, AND WEST GERMANY THE YEAR
BEFORE LAST.

B. EVEN THOUGH THERE IS A SURPLUS BALANCE, THE AMOUNT IS EXTREMELY
SMALL, AND WHEN VIEWED FROM THE CURRENT ACCOUNTS BALANCE, THE
SURPLUS AMOUNT WAS ONLY 700 MILLION DOLLARS FOR THE JANUARY-JUNE
PERIOD.

C. IN THE BACKGROUND OF THE INCREASE IN EXPORTS, THERE WERE SUCH
TEMPORARY FACTORS AS THE MOVES WITHIN THE US TO INCREASE
AUTOMOBILE STOCKPILES, FROM AROUND THE END OF LAST YEAR.

D. IN THE FIRST QUARTER OF THIS YEAR (JANUARY-MARCH), THE REAL
GROWTH RATE SHOWED A HIGH RATE OF INCREASE OF 3.5 PERCENT,
COMPARED WITH THE PRECEDING PERIOD (14.7 PERCENT ON THE ANNUAL
BASIS). HOWEVER, THE CONTRIBUTION RATE BY EACH DEMAND ITSM WAS
56.8 PERCENT FOR PRIVATE CONSUMPTION AND 23.9 PERCENT FOR PRIVATE
HOUSING INVESTMENTS. THEREFORE, IT WAS NOT A BUSINESS RECOVERY
BASED ON EXPORT DRIVES.

E. AN INCREASE IN IMPORTS IS LAGGING BEHIND, BUT THERE IS THE
SAME TENDENCY IN THE US, TOO, AND IT IS SELF-EVIDENT THAT OUR
COUNTRY'S IMPORTS WILL INCREASE IN THE FUTURE.

F. THE SURPLUS BALANCE IN THE CURRENT ACCOUNTS WILL COME TO
DWINDLE IN THE FUTURE.

G. DURING THE THREE YEARS (1974-1976) SINCE THE OIL CRISIS, THE
US REGISTERED A SURPLUS OF 7.6 BILLION DOLLARS IN ITS CURRENT
ACCOUNTS, WHICH WEST GERMANY SHOWED A SURPLUS BALANCE OF 15.4
BILLION DOLLARS. IN THE CASE OF JAPAN, IT REGISTERED DEFICITS
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AMOUNTING TO 1,650 MILLION DOLLARS. (FOR 1976, THE FIGURES ARE
THE ESTIMATES MADE BY THE OECD).

STRUCTURE OF OUR COUNTRY'S INTERNATONAL PAYMENTS: A. OUR
COUNTRY CANNOT SURVIVE UNLESS IT HAS A SURPLUS BALANCE IN ITS
TRADE ACCOUNTS (IT WILL NOT BE POSSIBLE TO MANAGE ITS ECONOMY).
THE INVISIBLE TRADE ACCOUNTS ARE IN A STATE OF STRUCTURAL
DEFICITS, AND IN ITS CAPITAL ACCOUNTS, TOO, THE DEFICIT TREND
IS EXPECTED TO CONTINUE. B. THREE-FOURTHS OF OUR COUNTRY'S
IMPORTS ARE RAW MATERIALS, AND OIL IMPORTS AMOUNT TO AS
MUCH AS 20 BILLION DOLLARS A YEAR. FOR THIS RESSON, IF THE OIL
PRICE RISES BY 10 PERCENT, OUR COUNTRY'S INTERNATIONAL PAYMENTS
SITUATION WILL WORSEN BY 2 BILLION DOLLARS IT IS THUS PLACED

IN AN UNSTABLE SITUATION.

FOREIGN CURRENCY RESERVES:

A. THE ECONOMIC SCALE OF OUR COUNTRY AND THAT OF WEST GERMANY IS ROUGHLY THE SAME. HOWEVER, OUR COUNTRY'S FOREIGN CURRENCY RESERVES AMOUNTED TO 15,940 MILLION DOLLARS (AS OF THE END OF JUNE), AND THE AMOUNT IS ONLY ONE-HALF THAT OF WEST GERMANY (33,326 MILLION DOLLARS). FURTHERMORE, OUR COUNTRY'S GOLD HOLDINGS ARE SMALL IN AMOUNT (847 MILLION DOLLARS). FOR THIS REASON, WHEN CALCULATIONS ARE MADE, BY CONVERTING GOLD AT THE CURRENT PRICE, WEST GERMANY'S FOREIGN CURRENCY RESERVES WILL AMOUNT TO ABOUT 41 BILLION DOLLARS, WHEREAS OUR COUNTRY'S RESERVE AMOUNT WILL ONLY BE 17,335 MILLION DOLLARS, OR ABOUT THE SAME LEVEL AS THAT OF SWITZERLAND (16,513 MILLION DOLLARS, AFTER THE REVALUATION OF GOLD).

B. ALSO, OUR COUNTRY'S FOREIGN EXCHANGE BANKS HAVE BORROWINGS AMOUNTING TO ROUGHLY THE SAME AMOUNTS AS THE AMOUNT OF FOREIGN CURRENCY RESERVES (EXCESS OF DEBTS OF ABOUT 14.9 BILLION DOLLARS). WHEN THE PARTS OF THE GOVERNMENT AND OF THE PRIVATE CIRCLES ARE COMBINED, OUR COUNTRY'S FOREIGN CURRENCY POSITION IS WEAK, WHEN COMPARED WITH THAT OF WEST GERMANY, WHERE THE BORROWINGS AMONG PRIVATE SECTORS ARE SMALL (ABOUT 100 MILLION DOLLARS IN EXCESS BORROWINGS).

EXCHANGE RATE:

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A. IN THE LIGHT OF THE MOVES FROM IMMEDIATELY AFTER THE RAMBOUILLET CONFERENCE (NOVEMBER 14 OF LAST YEAR) UP TO THE PRESENT (AUGUST 26), THE RATE OF THE UPWARD REVALUATION OF THE YEN IS 4.6 PERCENT, AND COMPARED WITH THAT OF THE WEST GERMAN MARK (2.42 PERCENT), IT IS BIGGER.

B. WHEN OUR COUNTRY'S INTERNATIONAL MONETARY AUTHORITIES INTERVENE IN THE EXCHANGE MARKET, THEY UPHOLD STRICTLY THE IMF FLOAT GUIDELINE, WHICH WAS FORMULATED THROUGH TALKS AMONG THE VARIOUS NATIONS LAST YEAR, AND THE RAMBOUILLET SPIRIT (THE OBLIGATION TO INTERVENE IN THE MARKET IN ORDER TO PREVENT SHARP FLUCTUATIONS IN THE EXCHANGE MARKET AND FOR THE STABILIZATION OF THE MARKET), AND THERE IS NO REASON FOR OUR COUNTRY'S INTERVENTION POLICY TO BE CRITICIZED. OUR COUNTRY IS MERELY PREVENTING THE SHARP FLUCTUATIONS IN THE MARKET THROUGH THE INFLOW OF SHORT-TERM FUNDS, ACCOMPANYING THE SHAKING OF EUROPEAN CURRENCIES SINCE THE START OF THIS YEAR. ALSO, OUR COUNTRY'S DOLLAR-BUYING INTERVENTION IN THE FIRST HALF OF THIS YEAR HAS BEEN LESS THAN ITS DOLLAR-SELLING INTERVENTION IN THE SECOND HALF OF LAST YEAR.

C. MORE THAN ONE-HALF THE EXPORTS OF THE US AND EUROPEAN NATIONS

ARE IN THE CURRENDIES OF THEIR OWN COUNTRIES. THE RATE OF OUR COUNTRY'S YEN-BASED EXPORTS IS EXTREMELY LOW, AT 20.2 PERCENT. THERE IS THE SITUATION THAT UNLESS THE EXCHANGE RATE TO THE DOLLAR IS STABILIZED, SMOOTH EXTERNAL TRANSACTIONS CANNOT BEA CONDUCTED. END TEXT.

3. ADDITIONAL NEWS COMMENTARY IN SAME ARTICLE OF INTEREST TO WASHINGTON AGENCIES IS AS FOLLOWS:

SURPLUS TRADE BALANCE IS INDISPENSABLE FOR OPERATION OF JAPANESE ECONOMY: FINANCE MINISTRY COMPLILES REFUTATION TO CRITICISM AGAINST LOW YEN

EUROPEAN AND AMERICAN CRITICISM AGAINST OUR COUNTRY'S TRADE AND EXCHANGE POLICIES IS MOUNTING FURTHER, WITH US HOUSE BANKING COMMITTEE CHAIRMAN REUSS RECENTLY CRITICIZING THE LOW YEN MARKET, BUT THE FINANCE MINISTRY, ON THE 27TH, DECIDED ON A POLICY WHICH FRNTALLY CONFRONTS THESE MOVES AND AT THE SAME TIME, FORMULATED THE GIST OF REFUTATIONS TO THEM, IN WRITTEN FORM. ACCORDING TO UNCLASSIFIED

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THIS, THE MAIN CONTENTS ARE AS FOLLOWS: (1) THE SURPLUS BALANCE IN THE CURRENT ACCOUNTS WAS NO MORE THAN 700 MILLION DOLLARS IN THE JANUARY-JUNE PERIOD OF THIS YEAR, AND EVEN THIS WILL GRADUALLY DWINDLE IN THE FUTURE, WITH THE SLOWING DOWN OF EXPORTS AND AN INCREASE IN IMPORTS; (2) NON-TRADE ACCOUNTS ARE IN A STATE OF DEFICIT STRUCTURALLY, AND UNLESS THERE IS A TRADE SURPLUS BALANCE, THE JAPANESE ECONOMY WILL NOT BE ABLE TO MANAGE; AND (3) THE CURRENCY AUTHORITIES' INTERVENTION IN THE FOREIGN EXCHANGE MARKET SIMPLY ABIDES BY THE IMF AGREEMENT FOR THE "PREVENTION OF VERY SHARP FLUCTUATIONS IN THE EXCHANGE MARKET" AND THE RAMBOUILLET SPIRIT. THE FINANCE MINISTRY WILL DISPATCH VICE MINISTER FOR INTERNATIONAL MONETARY AFFAIRS MATSUKAWA TO VARIOUS EUROPEAN NATIONS AND TO THE US, FOR ABUT TEN DAYS, FROM THE 31ST, AND IT INTENDS TO HAVE HIM EXPLAIN OUR COUNTRY'S POSITION, ALONG THE LINE OF THIS REFUTATION OUTLINE, TO THE VARIOUS NATIONS' TOP MONETARY AUTHORITIES AND PERSONS CONNECTED WITH THE NATIONAL ASSEMBLIES.

THE FINANCE MINISTRY, TAKING A SERIOUS VIEW OF THE FACT THAT CRITICISM AGAINST THE LOW YEN HAS SPREAD FROM EUROPEAN AND AMERICAN MASS MEDIA CIRCLES EVEN TO THE USHCONGRESS, STUDIED COUNTERMEASURES TOWARD THIS, ON THE 27TH. AS A RESULT, IT FORMULATED A UNIFIED VIEW IN REGARD TO THE CRITICISM AGAINST THE LOW YEN, INCLUDING US HOUSE BANKING COMMITTEE CHRIRMAN REUSS' LETTER TO AMBASADOR TO THE US TOGO, TO THE EFFECT THAT "IT IS BASED ON A MISUNDERSTANDING BY VARIOUS EUROPEAN AND AMERICAN NATIONS, AND THERE IS NO REASON FOR OUR COUNTRY'S EXCHANGE POLICIES TO BE CRITICIZED." IT DECIDED THAT IT WILL REBUT THE EUROPEAN AND AMERICAN NATIONS, WHEN AN OPPORTUNITY PRESENTS ITSELF, IN THE FUTURE.

THE REFUTATION DOCUMENT WILL BE TAKEN BY VICE MINISTER MATSUKAWA, WHO WILL LEAVE FOR A ROUND OF VISITS TO EUROPEAN AND AMERICAN NATIONS NEXT WEEK. THE FINANCE MINISTRY IS ALSO CONSIDERING TRANSLATING THE DOCUMENT INTO ENGLISH AND SENDING IT TO THE GOVERNMENTS AND THE NATIONAL ASSEMBLIES OF THE VARIOUS NATIONS.

THE REFUTATION DOCUMENT, COMPILED BY THE FINANCE MINISTRY, TAKES THE FORM OF EXPLAINING THE PRESENT SITUATION AND OUTLOOK, AND THE VIEWS OF OUR COUNTRY'S MONETARY AUTHORITIES, ON FOUR POINTS, THAT IS, 1) THE MOVES AND OUTLOOK FOR OUR COUNTRY'S
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INTERNATIONAL PAYMENTS POSITION, (2) THE STRUCTURE OF ITS INTERNATIONAL PAYMENTS POSITION, (3) THE AMOUNT OF FOREIGN CURRENCY RESERVES, AND (4) EXCHANGE RATES.
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<< END OF DOCUMENT >>

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